



Opportunistic Fixed Income Overview

5/20/2015



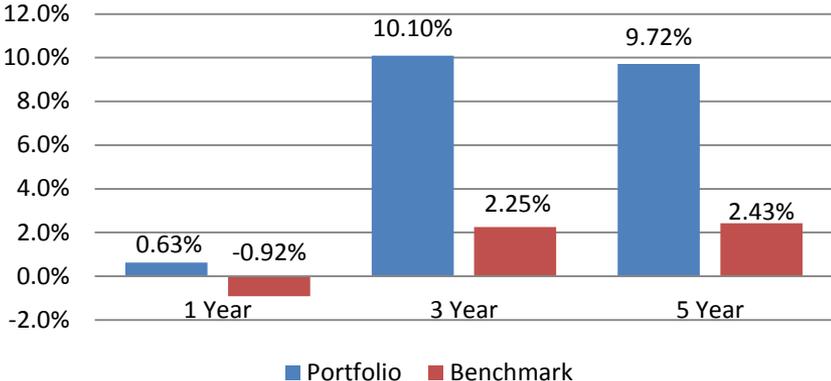
North Carolina Department of State Treasurer
Investment Management

Learn. Invest. Grow. Prosper.

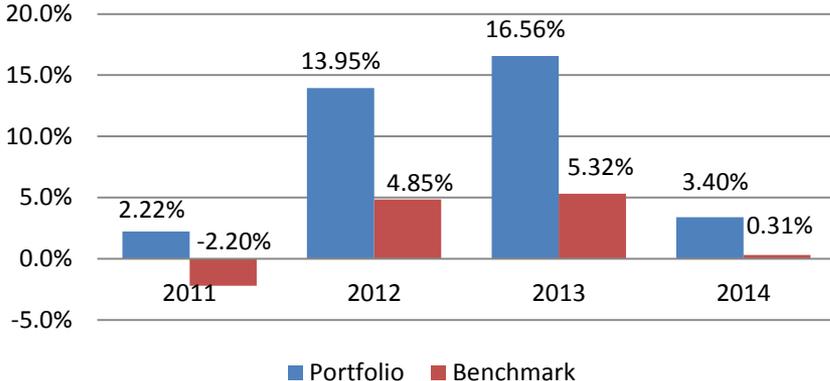
Portfolio Performance

* Data as of 3/31/2015 (quarterly)

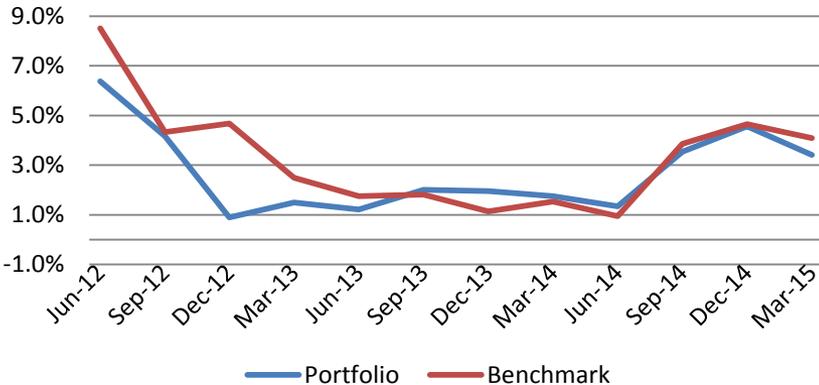
Annualized Performance



Calendar Year Performance



Rolling 1-Year Volatility



Historical 5-Year Correlation

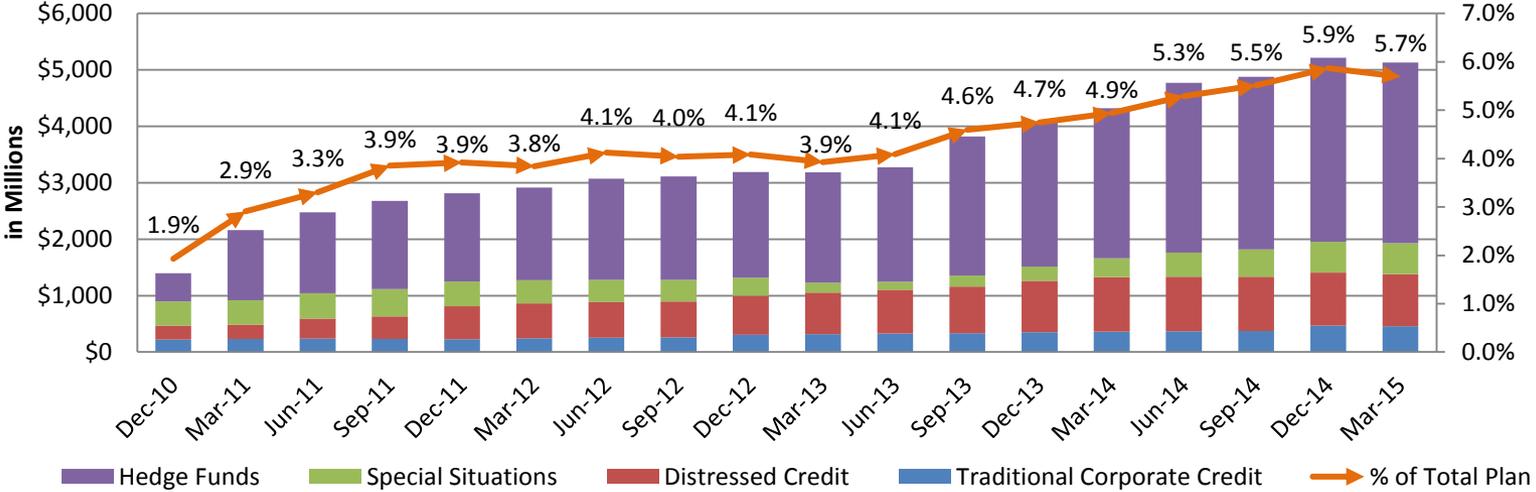
	OFI	Total Fund	Global Equity	Fixed Income	Real Estate	Private Equity	Inflation
OFI	1.00						
Total Fund	0.36	1.00					
Global Equity	0.40	0.98	1.00				
Fixed Income	-0.42	-0.32	-0.49	1.00			
Real Estate	0.04	0.38	0.38	-0.44	1.00		
Private Equity	0.28	0.12	0.05	-0.04	0.52	1.00	
Inflation	0.45	0.16	0.21	-0.32	-0.04	0.21	1.00



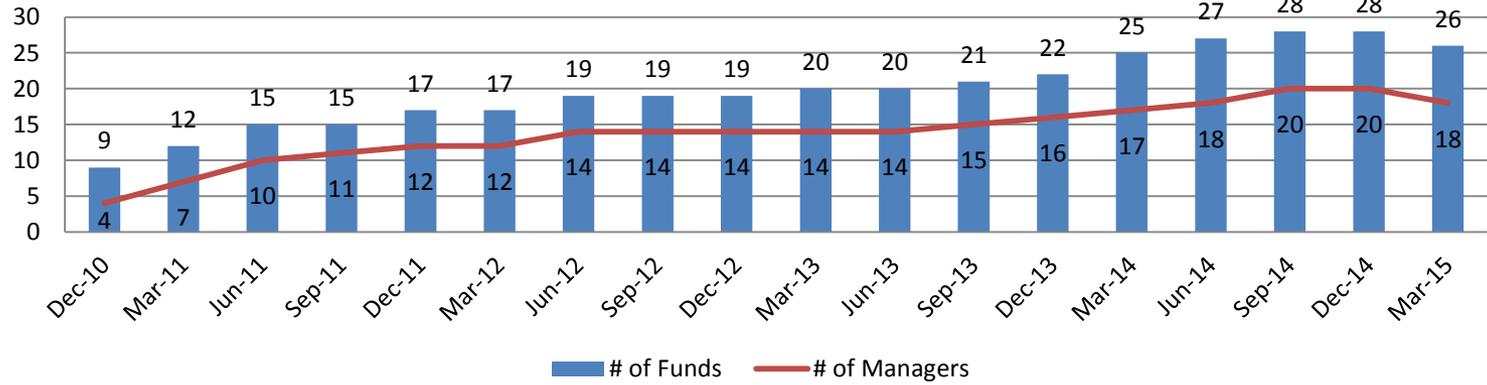
Portfolio History

* Data as of 3/31/2015 (quarterly)

Portfolio Market Value Timeline by Strategy



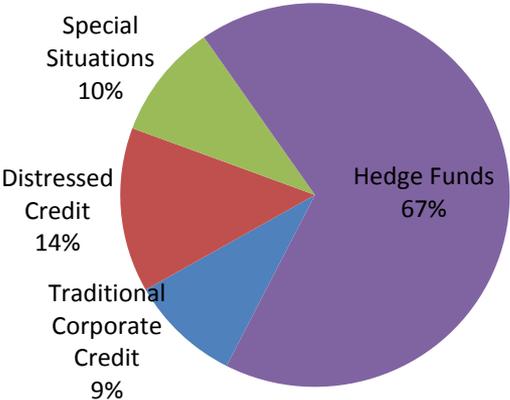
Growth of Managers and Funds Capacity



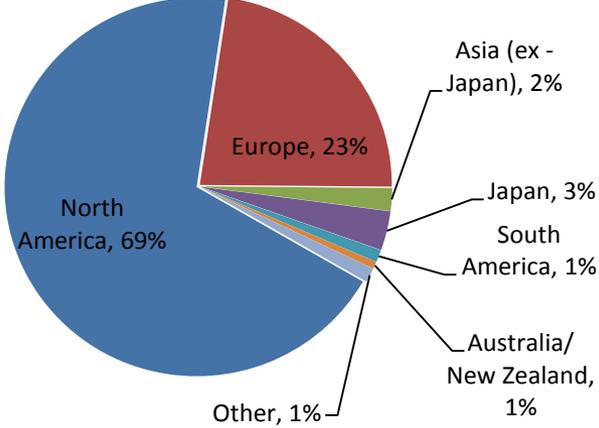
Portfolio Characteristics

* Data as of 12/31/2014

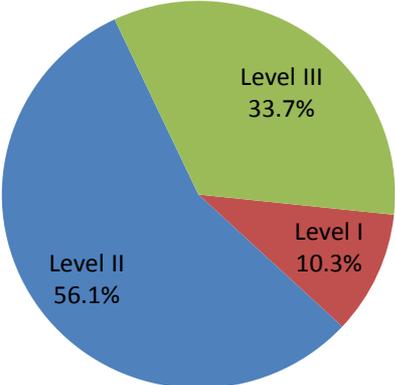
Strategy Allocation



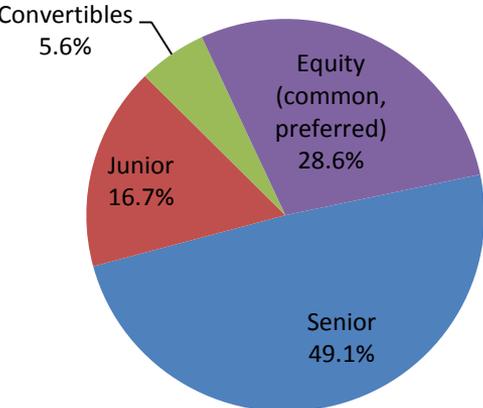
Geographic Allocation



Liquidity of Underlying Assets



Capital Structure Allocation



Annual Portfolio Review

- Performed annual portfolio review with specialist consultant

Findings

- The portfolio is comprised of institutional caliber funds and highly diversified across credit market segments and strategies
- The portfolio could benefit from additional diversification and increased exposure to the following:
 - Credit Multi-Strategy & Global Distressed
 - European Distressed
 - Relative Value Structured Credit
 - Emerging Market Debt



Forward Looking Opportunity Set

More Attractive

- US Direct Lending
- Whole loans
 - Residential
 - Commercial
- Stressed / Distressed
 - European NPLs
- Energy Dislocation

Less Attractive

- European Direct Lending
- Long only high yield
- Long-only Structured Credit (CLOs, RMBS, CMBS)



Strategic Considerations for Discussion

1. Manager Profile
 - Large diversified platforms or smaller specialists?
 - How to maximize the benefits of our scale?

2. Long Term Mandate
 - Balance between “Opportunistic” and “All-weather” strategies
 - Risk tolerance (volatility, drawdown, long/short vs. long only)
 - Fully invested vs. under-allocated relative to target

3. Where are we in the credit / business cycle (domestic, global)?
 - Contraction or expansion?
 - Reduce or increase credit risk?



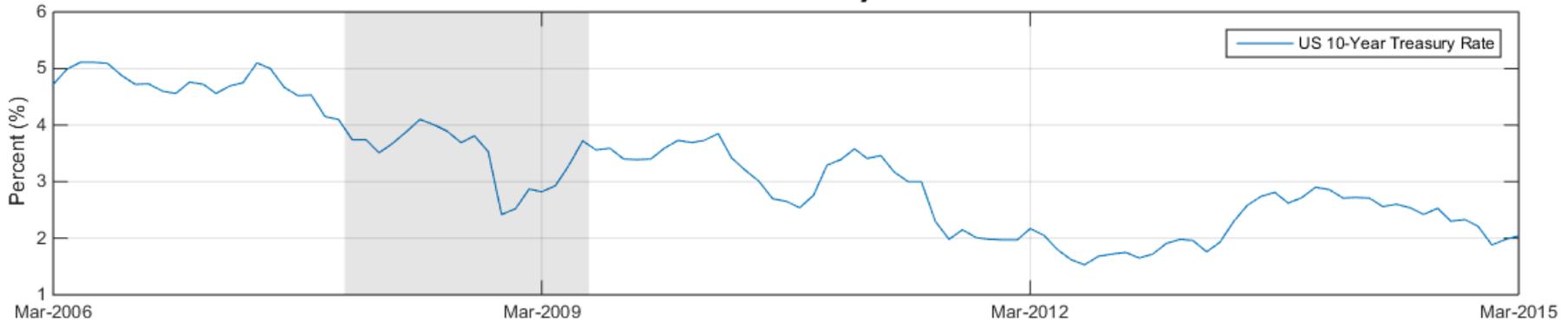
Supplemental Information for Discussion



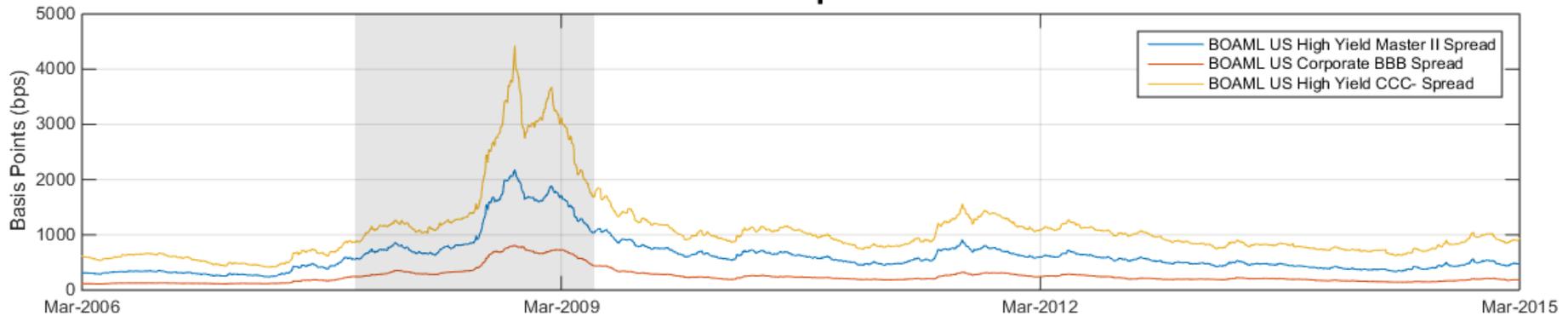
10-Year Treasury Yield & Credit Spreads

Source: Federal Reserve Bank of St. Louis

10-Year Treasury Yield



Credit Spread

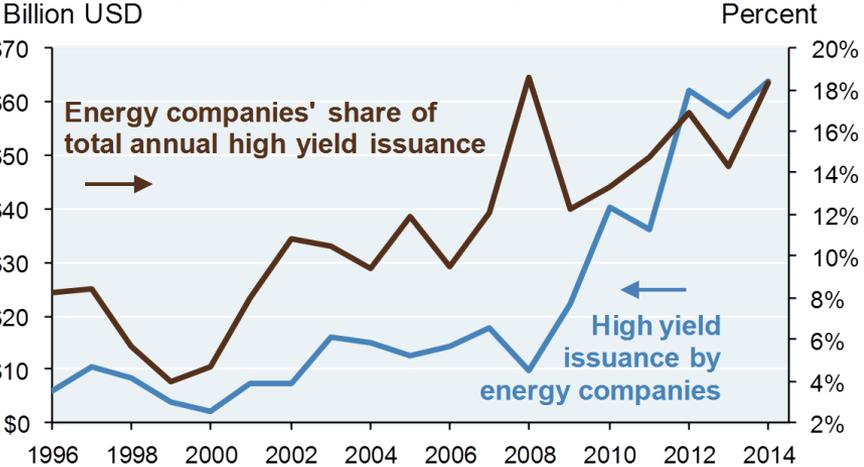


Source: BofA Merrill Lynch, used with permission. See disclaimer on page 15.
Federal Reserve Bank of St. Louis.



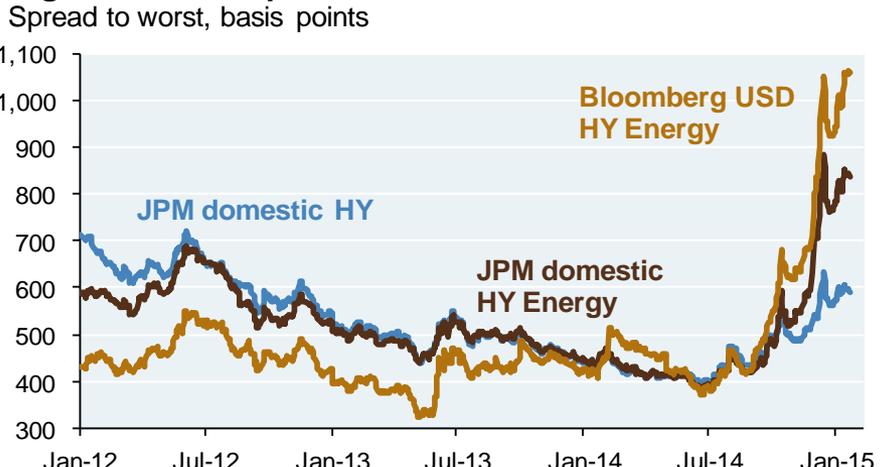
Energy High Yield Environment

Growing impact of high yield energy companies



Source: J.P. Morgan Securities LLC. 2014 data through November.

High Yield under pressure

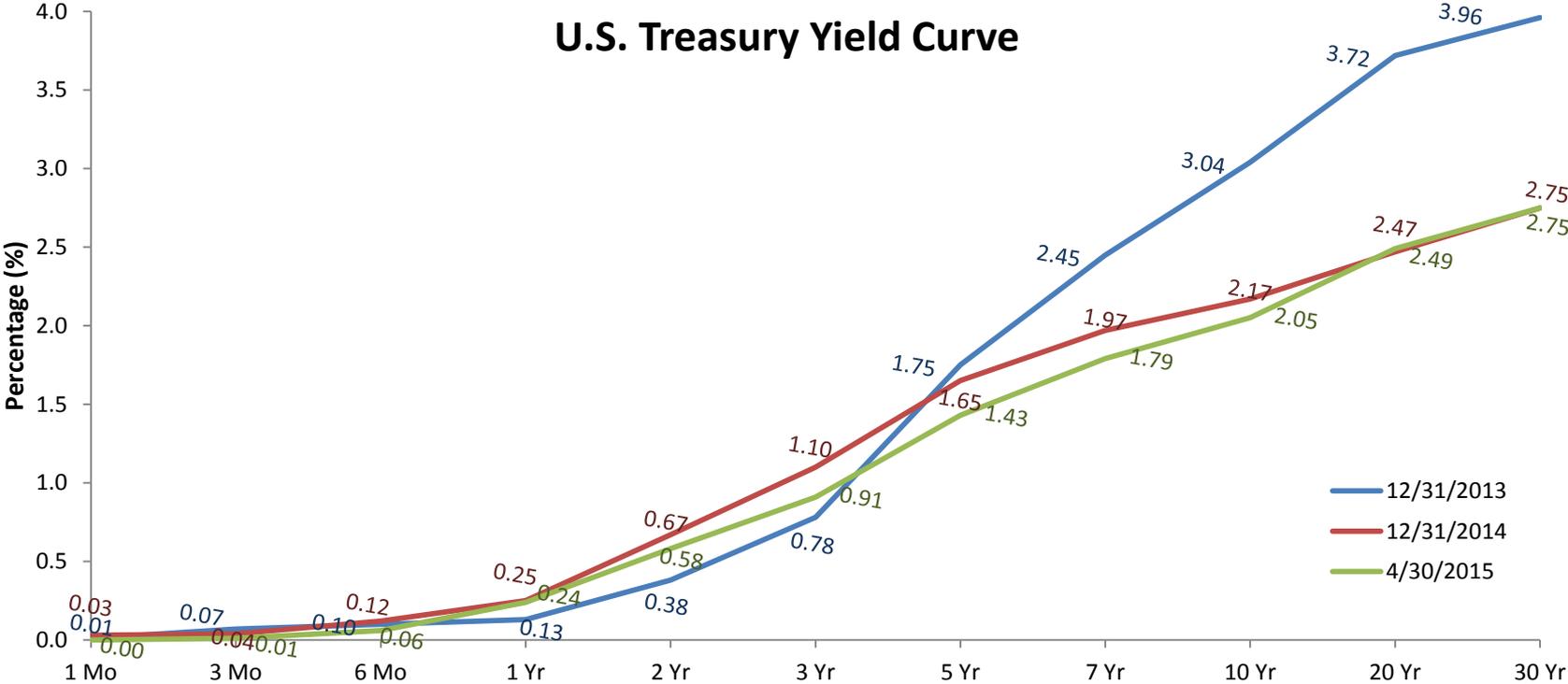


Source: J.P. Morgan Securities LLC, Bloomberg. January 22, 2015.



Interest Rate Environment

Source: U.S. Department of the Treasury , Federal Reserve Bank of St. Louis

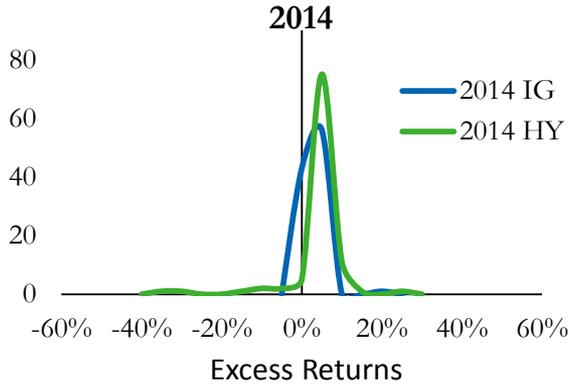
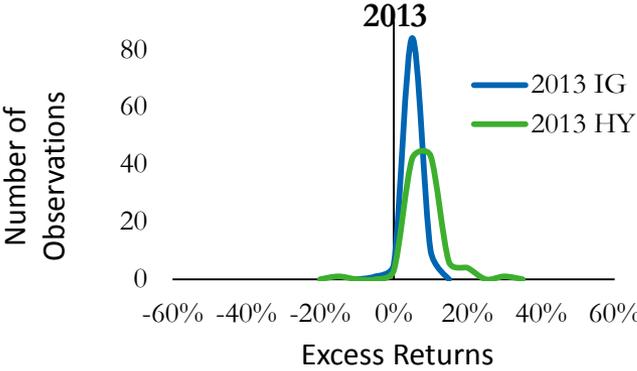
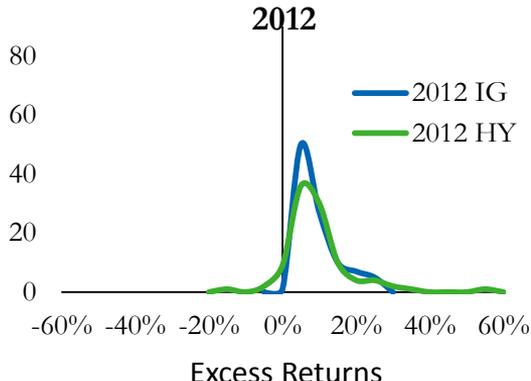
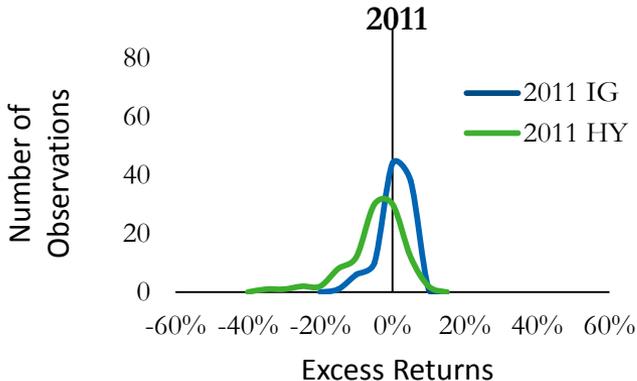


12-months Ending	Change in US 10-year Treasury Yield	US Treasuries	Investment Grade	High Yield	Bank Loans	Distressed Securities	Relative Value	S&P 500
Oct-94	+ 241 bps	-4.67%	-4.77%	0.82%	N/A	8.62%	7.44%	3.72%
Jan-00	+ 194 bps	-2.95%	-3.20%	1.34%	N/A	13.89%	12.17%	9.38%
May-04	+ 115 bps	-2.71%	-0.16%	11.53%	7.65%	17.98%	5.66%	15.49%
Jun-06	+ 111 bps	-1.71%	-2.00%	5.36%	6.26%	12.46%	10.51%	7.94%



Return Distribution IG & HY 2011- 2014

Excess Returns of 100 Benchmark Issuers



Significant tightening in both IG and HY credit spreads from 2011 to 2014 has created challenging market for capturing returns, particularly in L/S credit.

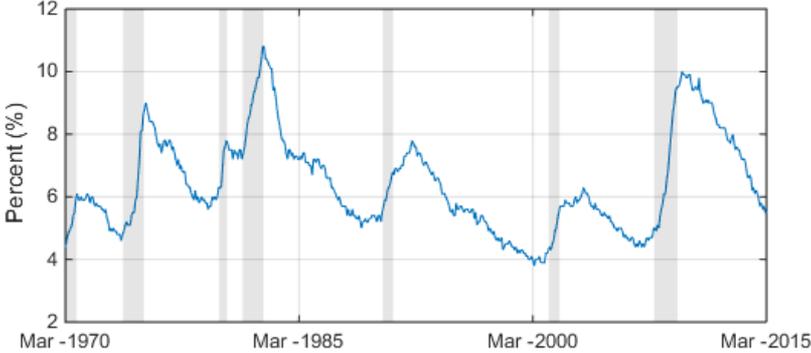
Source: Citi Research, Date Ranges: 1/31/2011 - 12/31/2013, 1/31/2014 - 10/31/2014
Data reflected is current as of all information available at the time period in this presentation.



Economic Environment

Source: Federal Reserve Bank of St. Louis

Unemployment Rate



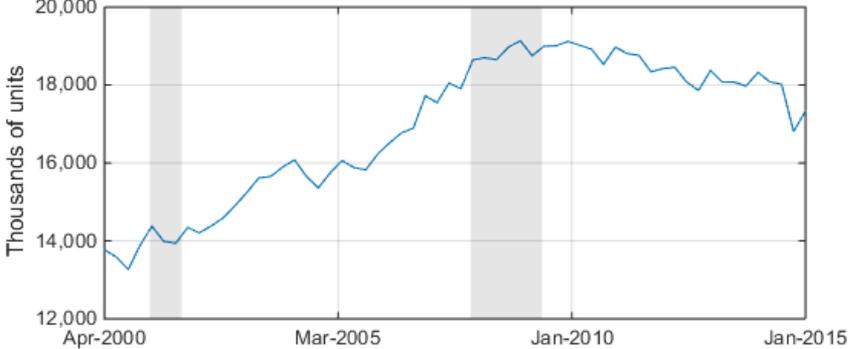
Civilian Labor Force Participation Rate



New Privately Owned Housing Units Started

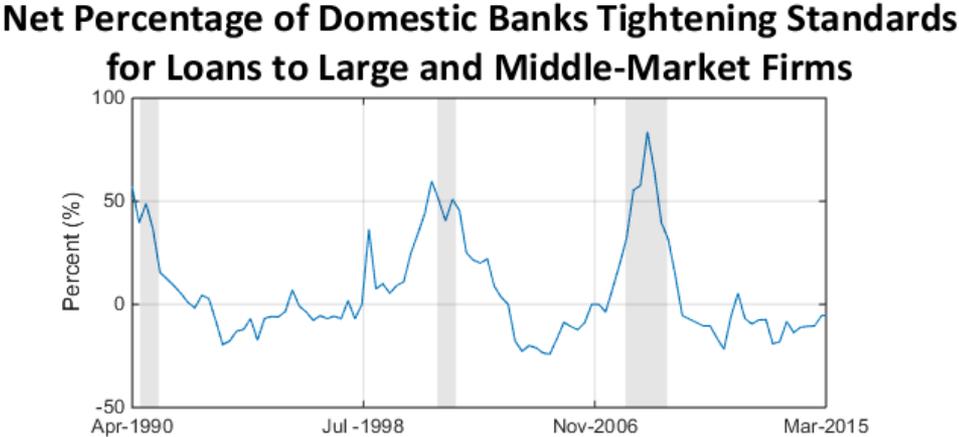
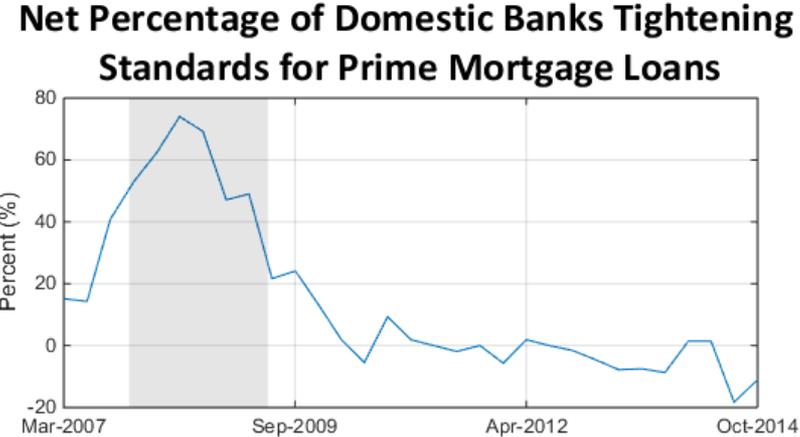
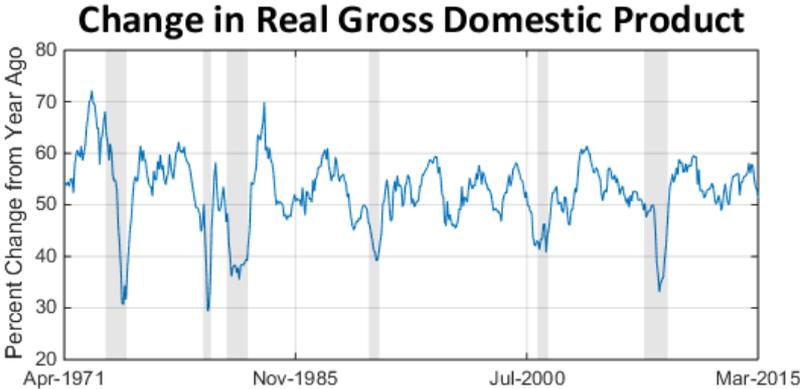


Housing Inventory Estimate: U.S. Vacant Housing Units



Economic Environment (continued)

Source: Federal Reserve Bank of St. Louis



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